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C O N F I D E N T I A L SECTION 01 OF 03 BRASILIA 001124

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TAGS: [PREL](#) [MASC](#) [ETTC](#) [BR](#)

SUBJECT: LULA FAVORS FRENCH FIGHTERS -- SITUATION SERIOUS
BUT NOT HOPELESS

REF: A. BRASILIA 1100

[1](#)B. BRASILIA 1094

Classified By: Charge d'Affaires Lisa Kubiske. Reason: 1.4(d)

SUBJECT: Lula Favors French Fighters) Situation Serious
But Not Hopeless

[1](#)1. (C) SUMMARY. In a surprise announcement during the September 7 visit of French President Sarkozy, President Lula said Brazil would begin negotiations to purchase French-made Rafale fighter aircraft. The President's step short circuited the Brazilian Air Force's technical evaluation process which was supposed to deliver a recommendation in the next week. Since Lula's announcement, GOB officials have been engaged in spin control to convey the message that the purchase from France is not completely certain; the intention is simply to begin purchase negotiations. Nevertheless, the September 7 message indicates that the Rafale is now the strong favorite and underlines the importance of the Lula-Sarkozy personal relationship. Because Lula cited the French willingness to transfer technology as the basis for his preference, and the USG has recently concluded the Congressional notification process for Boeing's F18 Super Hornet, we may be able to use the final tech transfer approval to seek a level playing field in the negotiation phase. As this was a political decision, we will need political-level support for the USG candidate to supplement the Super Hornet's superior package of technology and offsets. END SUMMARY.

WHAT WE KNOW

[1](#)2. (U) In a joint news conference with Sarkozy, September 7, Lula said that Brazil would begin negotiations with France for the purchase of thirty-six fighter aircraft. Lula cited France's willingness to transfer technology and the importance of consolidating the strategic partnership with France as the reasons for his decision. To bolster the French case, Sarkozy reportedly promised to buy a dozen C390 cargo planes, to be developed by Brazil and to support Rio de Janeiro's bid to host the 2016 Olympic Games. The French reportedly also promised to assist Brazil in exporting future French-Brazilian aircraft to unspecified countries in Latin America and Africa. Almost immediately after the news conference, other Brazilian officials began giving their own version of the announcement. Foreign Minister Celso Amorim said that there was a decision to negotiate with one supplier. There was no decision in relation to the other two

(competitors).8 Later press reports indicated that Lula &did not rule out8 the USG or Swedish planes.

13. (C) It is likely that Lula,s announcement came as a surprise to the rest of the Brazilian government. Over the past several weeks, Mission Brazil has heard the consistent message that any decision would be made after Sarkozy,s visit. Air Force contacts informed MLO Brasilia that they would be submitting their technical evaluation to the MOD in the week following the visit for review and preparation of a recommendation to the President. The evaluation was never completed or delivered, meaning Lula,s decision to favor the French was taken without the benefit of over a year of work by Air Force experts.

14. (U) September 8 press commentary shows the beginnings of a debate on the issue. Several commentators, notably in Folha Sao Paulo, have criticized the expense of the purchase and the lack of transparency of the decision process. Coming on the heels of criticism of the government for the non-competitive purchase of French submarines (ref a), Folha notes there seems to be a &strategy of silence for defense purchases. Another op ed in the same paper, however, trumpeted the deal as a means of avoiding an undesirable post cold war unipolar world. All commentators, however, still seem to believe that the USG is not reliable as a partner for technology transfer and that a future administration could decide to cancel any arrangements made by the current one.

15. (C) On September 8, USMLO Air Force Section Chief met with the BRAF team responsible for the evaluation process and

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reported that they have received direction to continue work as usual and not to react to what is being aired in the press. During another meeting with two 3-star General Officers, Brig. Salmone (Deputy Commander of Aerospace Technology Command) and Brig. Knupp (BRAF Finance Secretariat), they indicated the BRAF are proceeding &as if nothing happened yesterday,8 i.e. the Air Force will prepare its recommendation as previously planned and deliver it to the Minister; the USG should remain engaged as it was before Lula,s statement. (They stressed the importance of this moment for moving forward with the United States-Brazil relationship.)

WHAT IT MEANS

16. (C) Above all, the September 7 press conference showed that the fighter purchase has become a political decision in which the Super Hornet,s superior capabilities and Boeing,s offer of industrial partnership mean little. Lula,s announcement of an intention to negotiate a fighter purchase with France appears to have cut both Defense Minister Jobim and the Brazilian Air Force out of the loop and ignored the GOB,s official process for arriving at a decision. Despite Jobim,s statement to Under Secretary Tauscher (ref b) that he would give the U.S. a chance to match others, offers, the process has passed Jobim by. Jobim,s intention was to play a major role in the process, both to strengthen his authority as Minister and to add an achievement to his resume should he run for President in 2010. When the skipping of the technical evaluation becomes known, it is likely that more questions will be raised about the lack of a process. Given the spate of scandals touching members of the Brazilian government, it is also possible that there will be allegations of corruption arising from the deviation from the previously-announced procedure. The explanatory statement by Amorim was clearly intended to leave an opening for the other competitors, but Lula, through his announcement, has taken charge of the process and set the terms.

17. (C) As the government did with the submarine purchase, announced in December 2008 (ref a), Lula,s emphasis on tech transfer, without any specifics on what technologies are involved, provides an excuse to focus on a single preferred

supplier. The submarine decision was also announced during a Sarkozy visit to Brazil, showing the power of the personal relationship over such considerations as capability, cost and benefit to the Brazilian economy. It is worth noting that Brazil faces Presidential elections in 2010, and Lula will not want to hand the opposition an issue with which to criticize his government for wasting money or employing questionable procurement processes. Should opposition in the press and the Brazilian Congress grow, it is possible Lula could turn to another option or put off the fighter competition to be decided by the next President.

WHAT TO DO

18. (C) The clear designation of the French as the front runners means that the USG/Boeing bid faces a major challenge in order to level the playing field. It will be critical to counter the perception that USG willingness to transfer technology is ephemeral and to get this message to Lula, who has established himself as the only decision maker on this issue. In doing so, we need to take advantage of Lula's definition of tech transfer as the key issue and the fact that while negotiations are to open with France, they are not yet closed to the other competitors. We can use the completion of the thirty day Congressional notification period for the sale on September 5 as a new fact in support of the USG bid. By meeting Lula's requirement for assured tech transfer, we can argue that we should begin the negotiation process for the same reason the French have been invited to do so.

19. (C) Given that Lula's decision to begin negotiations with the French was made following a late dinner with Sarkozy, the importance of personal relationships cannot be overstated. Should President Obama speak with Lula in the next few weeks, it would be important for him to mention the fighter sale. Post recommends that any such conversation

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could include such points as:

- We understand you are negotiating with the French for the purchase of fighter aircraft because they are offering technology transfer. We are prepared to offer full transfer of all necessary technology as well.
- This decision has been made and passed through Congress. I guarantee it will not change.
- Since we are offering the same technology transfer as the French, I ask that we also be included in the purchase negotiations. I am confident that we will be able to offer a better deal.

110. (SBU) Post also recommends that senior USG officials make similar points to the Brazilian press. Additionally, we should add that the USG is offering technologies the others cannot (e.g. low observables, materials testing and proven AESA radar). We should also note that both the French and Swedish entrants contain USML-controlled technology and require export licenses both for sale to Brazil and should Brazil wish to transfer to third parties.

111. (SBU) On September 14, Boeing plans to host a suppliers conference with Brazilian industry, which generally favors partnership with Boeing. Post will engage with Boeing on a positive message. If Lula's tech transfer issues can be addressed, hearing from business leaders that the Brazilian economy would benefit most from partnership with Boeing could be influential. Boeing expects substantial press coverage at this event, and we should ensure that the USG is represented to underline that we have completed our tech transfer approval.

KUBISKE